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SUBJECT: JCRED AMMAN: Trade Session Discussion focuses on PDS, GSP, WTO Accession

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1. (SBU) Summary: The inaugural U.S.-Iraqi Joint Committee on Reconstruction and Economic Development (JCRED) meeting held in Amman, Jordan on July 10-11, 2005 saw detailed discussions of developments in Iraq's trade and agriculture sectors. Delegates discussed the imminent July submission of Iraq's initial World Trade Organization accession document, means by which Iraq can take advantage of recently awarded Generalized System of Preferences (GSP) privileges for dates and how to begin to reform the Public Distribution (food ration) System (PDS) administered by the Ministry of Trade and the largest subsidy in the Iraqi budget for 2005. The Ministry of Finance announced plans to double the current 5 percent "Reconstruction Levy" to 10 percent and recast it as a tariff as early as 2006. The Ministers of Finance and Trade expressed their desire to see market conditions in Iraq improve so that the government could scale back its role in food subsidies. End Summary.

The Public Distribution (Food Ration) System

2. (SBU) Finance Minister Allawi opened the JCRED Session on Trade by acknowledging U.S. encouragement that the Iraqi Transitional Government (ITG) initiate reform of the PDS system. According to Allawi, the ITG is exploring ways to reduce the scope of the program, but monetization, a reform suggested under the previous government is not the current preferred method. Instead, the ITG is exploring the gradual reduction of foodstuffs distributed by the system. Minister Allawi asked Minister of Trade Abdul Bassit Kareem to elaborate on the current status of the PDS. Minister Kareem reported that upon assuming his post as Minister he found the PDS short of supplies, with some food items undistributed for three months. Kareem stated his belief that the majority of Iraq's population remains dependent in some form on the PDS system. He stressed that any reform initiatives had to be initiated by the Iraqi Cabinet and legislature (Transitional National Assembly) but that market conditions need to improve before the Iraqi private sector can step in to take over functions that PDS now performs.

3. (SBU) In order to achieve private sector growth Kareem highlighted the Ministry's efforts to create an investment environment that is "clearly articulated" with "protections" for investors where administrative procedures are rationalized and technical barriers to trade are removed. As proof of progress in this area Kareem pointed to changes in Iraqi investment laws granting local treatment for all international investments in Iraq. In addition, a Trade Center at the Ministry of Trade provides information and a monthly magazine that highlights investment opportunities in Iraq. Minister Kareem also spoke of the creation of an Investment Promotion Board that will be responsible for investment issues in Iraq. He stressed that while the Ministry of Trade is spearheading these efforts, security still precludes many potential investors of taking advantage of these services, and that he stated, is not the responsibility of the Ministry of Trade.

Iraq's WTO Accession and use of GSP preferences

4. (SBU) Minister Kareem went on to discuss Iraq's preparation of the Memorandum of Free Trade Regime (MFTR) the initial document to begin its WTO accession process. Kareem reported the creation of an interministerial committee that worked for 8 months to prepare a document that is now with the Minister for final review. He assured delegates that the MFTR would be submitted to the WTO's offices in Geneva by the end of July 2005. He reported excellent cooperation between various ITG entities

including the Central Bank of Iraq (CBI), Trade Bank of Iraq (TBI), Ministries, private sector and consultants in the preparation of the document.

15. (SBU) In opening the session's discussion of the GSP, Assistant USTR, Ambassador Ashley Wills, praised Iraq's progress on the MFTR, encouraged its timely submission, offered USG help in identifying the various sources of accession preparation assistance and urged the Iraqi side to move quickly to chose a Working Party Chairman for their accession process. Wills noted that a WP Chair will best be able to aggressively push an Iraqi reform-minded agenda in the WTO. A question that Iraq will have to answer early in its accession process will be the level of its tariffs. Finance Minister Allawi informed delegates that Iraq intends to double the current "Reconstruction Levy" to 10 percent and recast it as a tariff as early as 2006. Allawi stated that this is intended as a revenue raising measure. Wills also encouraged the Iraqi side to move quickly in appointing an Ambassador to the WTO to shepherd the accession process along with the WP Chair.

16. (SBU) Ambassador Wills encouraged the Iraqi side to take advantage of newly added GSP privileges for dates, one of the country's major export crops. Agricultural Counselor James Smith added that Embassy Baghdad had prepared a short paper outlining the various steps Iraqi dates would need to go through in order to enter the U.S. market. He spoke of USDA's possible assistance with food safety issues as well as market analysis and encouraged the Iraqi side to work with Embassy Baghdad to "walk through the process".

17. (SBU) Deputy Secretary Zoellick added that both sides were eager to make export of dates under the GSP process work so that Iraq can offer a concrete example of successful exports. USDA would be urged to make addressing the GSP issues a priority. He asked that the Iraqi side provide contact information to Mr. Smith of the appropriate officials with which to continue to pursue the date export issue and noted that this would be a good example for Iraqi producers and would lead to other exports. When Minister Allawi pointed out that only a small percentage of Iraqi dates might be of sufficient quality for U.S. export, the Deputy Secretary stated his strong conviction that with U.S. support Iraq will be able to take advantage of GSP opportunities in the very near future.

18. (SBU) Iraqi Minister of Agriculture, Dr. Ali Al-Behadli commented that the Iraqi date crop was predicted to be of good quality this year and discussed the Ministry's efforts in developing a new date palm pest-control plan that will possibly utilize gamma radiation for pest eradication rather than other chemical methods that preclude export to the U.S. and other nations. The Deputy Secretary stated that the agricultural sector is a key engine for future Iraqi economic growth and encouraged the ITG to work closely with the Embassy on agricultural issues.

19. (SBU) Deputy Secretary Zoellick urged the Iraqi side to begin to work both multilateral and bilateral negotiations in their WTO accession process. He stressed that good leadership, via a strong Working Party Chair and Ambassador to the WTO will allow Iraq to defend their trade agenda in Geneva. At the same time he stressed, Iraq can work diligently to bring domestic legislation into WTO conformity.

KHALILZAD